

CHAPTER 62

EXPENSES

A. GENERAL

An expense is an outlay, or other using of an asset, or the incurring of a liability (or a combination) as a result of an entity's efforts to perform its mission. Expenses are an application of budgetary resources made available to DoD Components. Goods and services ordered and received are recorded in the budgetary accounts as accrued expenditures and in the proprietary accounts as an expense, a capital item, or an inventory item. The proprietary accounts maintain financial control over the resources provided to the Department of Defense and assure full accountability once the budget execution process has been completed. Full financial control over all material, labor, supplies, etc., is maintained until consumed (expensed), sold or transferred to another Federal Agency in accordance with statutory authority. The treatment of expense items by Defense Working Capital Fund (DWCF) entities is different from the treatment accorded to expenses related to appropriation funded activities. For DWCF entities, all expenses, unless specifically exempted by higher management, are costs that shall be recovered through billings to customers. General information relating to expenses can be found in Chapter 18, "Expenses," of Volume 4 of this regulation.

B. MILITARY PERSONNEL EXPENSE

1. General. Prior to the establishment of the DWCF, military personnel were assigned to a DWCF activity as a "free" resource--that is, the cost of military personnel was not paid by the DWCF nor was that cost included in reimbursable billings of the activity to its customers. After establishment of the DWCF, that process was changed. Now, the cost of military personnel involves two separate processes. The first involves the payment to military personnel appropriations for the budgeted amount of military personnel for a business area--regardless of the actual number of military personnel assigned. The second involves the costing of military personnel to jobs or cost centers for work performed at the business area activity. This does not result in duplicate transactions but does (1) ensure that military personnel appropriations are not underfunded due to variances between budget and actual numbers of military personnel assigned to DWCF activities, (2) ensure that customers are charged--through the rate structure--only for the number of military personnel budgeted to be at a DWCF activity, while (3) providing a tool to identify the actual cost of work performed. Under current policies, the cost of military personnel, at civilian equivalent rates, is:

a. Charged by the applicable military personnel appropriation to the DWCF in an amount equal to the dollar amount estimated at the time of budget formulation regardless of the number and grade of military personnel subsequently actually assigned to the DWCF activity.

b. Reimbursed to the applicable military personnel appropriation by the DWCF in an amount equal to the dollar amount estimated at the time of budget formulation regardless of the number and grade of military personnel subsequently actually assigned to the DWCF activity.

c. Included by the performing DWCF activity in its stabilized billing rates to DWCF customers. The stabilized billing rate shall be developed based on the military personnel dollar amount estimated at the time of budget formulation regardless of the number and grade of military personnel subsequently actually assigned to the DWCF activity.

d. Included by the performing DWCF activity in its operating costs. DWCF activities shall disclose, on the Statement of Operations, an adjustment to net operating results to result in a \$-0- variance between the amount paid to the applicable military personnel appropriation and the amount costed to customer orders. The adjustment makes readily visible the value of military personnel services received for which payment was not made or, conversely, the value of military personnel for which payment was made but services not received.

2. Civilian Equivalency Rate. The civilian equivalency rate of military personnel shall be included in the stabilized rate billed to all DWCF activity customers. Military personnel may be assigned to Fund activities for mobilization purposes, sea/shore rotation flexibility, or for career progression. In addition, military personnel are subject to duties and responsibilities as a result of their military position that do not apply to civilian employees and that may not be of direct benefit to the DWCF activity. These activities include short-term military training, guard duty, inspections, and other military related activities. To adjust for these differences, the military personnel appropriations are reimbursed at the civilian equivalency rate, and the balance of required funding is included as a direct appropriation to the affected Military Personnel appropriation. The civilian equivalency rate policy recognizes that if the military requirements did not exist, some positions now staffed by military personnel could be staffed with civilians at a lower cost to the business area.

3. Reimbursement to the Military Personnel Appropriations. DWCF activities shall, for payment of military personnel costs to military personnel appropriation accounts:

a. Provide Obligational Authority. Obligational authority shall be provided to the applicable military personnel appropriations equal to the total dollar amount for the number and grade of military personnel included in the approved budget of the DWCF activity. (As the budgeted amount is based on the civilian equivalency rate and the civilian equivalency rate for military personnel is less than the military composite pay rate, the military personnel appropriations is responsible for including any difference in its appropriation requests.) Obligational authority shall be provided to the applicable military personnel appropriation through issuance, by the DWCF, of a reimbursable order or other appropriate document as requested by the military personnel appropriation manager. The document providing the obligatory authority shall cite the applicable DWCF treasury account symbol (97X4930.xx). The provision of obligatory authority to the military personnel appropriation(s) shall result in the obligation of the applicable DWCF Treasury account in that same amount. The obligatory authority provided to the military personnel appropriations may, in accordance with an agreement

between the military personnel appropriation manager and the DWCF activity manager, be provided either:

(1) At the beginning of each quarter of the execution fiscal year in an amount equal to one-fourth of the annual total budgeted dollar amount priced at civilian equivalent rates for the military workyears included in the approved budget of the DWCF activity, or

(2) At the beginning of the execution fiscal year in an amount equal to the full annual total budgeted dollar amount priced at civilian equivalent rates for the military workyears included in the approved budget of the DWCF activity.

b. Accounting entries for the recordation of the quarterly/annual obligation for military personnel are shown below.

Dr 4614 Uncommitted/Unobligated Allotments Reimbursable
Program - Current Period
Cr 4821 Undelivered Orders - Without Advance- Reimbursable
Program

Entry to record obligation of the DWCF for the budgeted cost (at the civilian equivalency rate) for the budgeted dollar amount of military workyears. The obligation IS TO provide obligational authority to the applicable military personnel appropriation for subsequent payment of military personnel by the military personnel appropriations.

c. Payment to the military personnel appropriations for the budgeted cost of assigned military personnel. Payment shall be made by the DWCF to the applicable military personnel appropriation in the last month of each fiscal year quarter as reimbursement for military personnel. The quarterly payments shall equal, in total, the full amount of the obligational authority provided to the military personnel appropriations. The final quarterly deposit must be made on or before the last day (September 30) of the fiscal year. In the event of an unresolved dispute between the military personnel appropriation manager and a DWCF activity on the amount of the deposit, the additional amount requested by the military personnel appropriation manager shall be immediately provided. Upon resolution of the dispute, the DWCF activity shall be provided a refund, if any is due, of the applicable amount. Accounting entries for the recordation of the periodic deposit are shown below.

Dr 4821 Undelivered Orders - Without Advance - Reimbursable
Program
Cr 4940 Accrued Expenditures - Paid - Reimbursable Program

Dr 1452 Prepaid Expenses-Military Personnel-DWCF
Cr 1012.1 Funds Disbursed - Operating Program

Entry to record payment of military payroll expense. (Payment shall be made to the applicable military personnel appropriation.)

4. Military Personnel Costing Process

a. Military Personnel Cost Classification. Military personnel may be classified as either direct, indirect, or general and administrative (G&A) depending upon the organizational placement of a military member within a function and the work performed by that member.

b. Inclusion of Military Personnel Costs in Stabilized Billings to DWCF customers. Stabilized rate billings shall, in addition to other operating and capital program factors, include a factor sufficient to reimburse the DWCF for military personnel costs at the budgeted civilian equivalency amount.

c. Inclusion of Military Personnel Costs in DWCF Costs of Operations. The cost, to the DWCF, of military personnel is the amount paid by the DWCF for the services of those personnel. The amount paid by the DWCF is fixed at the time of budget formulation. However, during budget execution the actual number, grade, or both of military personnel may differ from the estimated amount included within the budget. The actual amount of military personnel services, in terms of number and grade, shall be applied to work performed and, since it is based on actuals rather than estimates, is likely to result in a variance between the amount applied by the DWCF to customer work and the amount paid by it to military personnel appropriations. DWCF activities shall disclose, on the Statement of Operations, an adjustment to net operating results to result in a \$0- variance between the amount applied to work performed and the amount paid to the applicable military personnel appropriation. The adjustment makes readily visible the value of military personnel services received for which payment was not made or, conversely, the value of military personnel for which payment was made but services not received.

(1) Recognizing Military Personnel as a Job Cost. DWCF activities shall account for the actual amount of military personnel costs at the civilian equivalency rate for the number and grade of military personnel assigned to the DWCF activity. DWCF activities shall accumulate and allocate to customer orders, through a labor distribution system, the actual military personnel costs at the civilian equivalency rate. There are 2080 total hours available during a fiscal year for military personnel. A portion of those 2080 hours generally are not available due to leave or other absences. A cost allocation system should provide for such contingencies. Accounting entries for the recordation of military personnel costs are shown below.

Dr 6131 Purchased Services-Military Personnel Costs
Cr 1452 Prepaid Expenses-Military Personnel-DWCF

Entry to record accrual of military employee cost incurred during the period.

(2) Adjustment of Military Personnel Cost. The applicable military personnel appropriations are paid an amount exactly equal to the total dollar amount for military personnel included in the approved budget of DWCF activities. The amount paid is recorded as an increase (debit) to account 1452, "Prepaid Expenses-Military Personnel-DWCF," and a decrease (credit) to "Funds Disbursed" (see paragraph 3.c. above). The actual amount of military personnel cost applied to work performed is recorded as an increase (debit) to account 6131, "Purchased Services - Military Personnel Costs," based on the civilian equivalency rates for the actual number and grade of military personnel assigned and a decrease (credit) to account 1452. As a result, a variance may result between the amount paid to military personnel appropriations and the amount applied to work performed. That variance will result in a debit or credit amount in account 1452 at the end of the fiscal year. The variance in account 1452 could be the result of several factors, for example, differences in the numbers of actual versus budgeted military personnel; differences in the grade/rank of actual versus budgeted military personnel; or differences in the hours of actual versus budgeted workload. The dollar amount of variance between the amount paid to the military personnel appropriations and the amount recorded as a cost of DWCF operations is required to be shown as an adjustment to Net Operating Results on the DWCF Statement of Operations for rate development use. The amount of the adjustment is the amount necessary to result in a \$0- balance in Account 1452 at the end of each fiscal year. The purpose of the adjustment is to assure that future stabilized rates do not include those variances. If, for example, the amount of military personnel costs applied to work performed exceed the amount paid to military personnel appropriations, inclusion of that variance in stabilized rate development would unnecessarily increase DWCF customer rates. Therefore:

(a) If Military Personnel Costs Applied to Work Performed is Greater than the Amount Paid to Military Personnel Appropriations. Account 1452, "Prepaid Expenses - Military Personnel - DWCF," as it relates to military personnel payments, will contain a credit balance if the amount of military personnel costs applied to work performed is more than the amount paid or payable to military personnel appropriations. In those instances, the following adjusting accounting entry is required at fiscal year end only.

Dr 1452 Prepaid Expenses-Military Personnel - DWCF
Cr 3311.1 Cumulative Results of Operations - DWCF

Entry to transfer the variance amount between actual versus budgeted military personnel cost when the actual amount is greater than the budgeted amount.

(b) If Military Personnel Costs Applied to Work Performed is Less than the Amount Paid to Military Personnel Appropriations. Account 1452, "Prepaid Expenses - Military Personnel - DWCF," as it relates to military personnel payments, will contain a debit balance if the amount recorded as military personnel expense is less than the amount paid or payable to military personnel appropriations. In those instances, the following adjusting accounting entry is required at fiscal year end only:

Dr 3311.1 Cumulative Results of Operations - DWCF
Cr 1452 Prepaid Expenses-Military Personnel-DWCF

Entry to transfer the variance amount between actual versus budgeted military personnel cost when the actual amount is less than the budgeted amount.

(3) Reporting on Statement of Operations. The fiscal year end Statement of Operations as of September 30 shall show the Net Operating Results of the DWCF which includes all revenues, costs, gains, and losses. However, military personnel applied costs that vary from budgeted military personnel costs are excluded from stabilized rate development. Therefore, the Statement of Operations shall show an adjustment of Net Operating Results to arrive at the amount that is to be used for stabilized rate development. The adjustment shall be equal to the adjustment amount recorded to Account 3311.1, "Cumulative Results of Operations-DWCF" [see subparagraphs 4.c.(2)(a) and (b) above]. When the military personnel expense is more than the amount paid to military personnel appropriations, the adjustment shall be shown as a positive amount. When the military personnel expense is less than the amount paid to military personnel appropriations, the adjustment shall be shown as a negative amount. The adjustment shall be shown on Part V of the DWCF Statement of Operations (AR 1307) as follows:

Net Operating Results
(+/-) Difference Military Personnel Reimbursement/Applied Costs
= Recoverable Operating Results

C. DEPRECIATION EXPENSE

1. Capitalization Criteria. The investment capitalization criteria for unit cost operations shall be aligned with the expense/investment funding threshold (currently \$50,000) used by the Congress for appropriating DoD operating (expense) and Procurement (investment) appropriations. Activities shall allocate to work performed the depreciation expense of assets, including computer software, for those assets that have a purchase cost or, when applicable, an estimated fair market value equal to, or in excess of, the expense/investment funding threshold; and have an estimated useful life of 2 years or more.

2. Depreciation Expense versus Capital Surcharge. The purpose of asset depreciation is to record a decrease in value of property through wear, deterioration, or obsolescence. Depreciation is therefore the recognition of an expense in the current period for an outlay that occurred in a previous period. Thus, depreciation expense recovery (through inclusion in stabilized rates or prices) results in a cash accumulation that can be used to acquire assets to replace those that are wearing out. Recovery of depreciation expense is the primary financing source for the DWCF Capital Investment Program. However, it is possible that at times depreciation expense recovery may not, by itself, be sufficient to finance the desired Capital Investment Program. In those instances and if approved by the Office of the Under Secretary of Defense (Comptroller), an additional element may be added to the stabilized rates and prices to finance the incremental difference. That additional element is termed a "Capital Surcharge." It is important to note that "Capital Surcharge" is not an expense and is not displayed as such on the Statement of Operations. A "Capital Surcharge" is one of many elements that may be used in computation of the stabilized billing rate or price. The stabilized billing rate or price, when

billed, is recorded as revenue. Since there is no counteracting expense for a capital surcharge, it should result in a positive Net Operating Result. To avoid the return of the capital surcharge through lower future stabilized rates/prices, Part V of the DWCF Statement of Operations (AR 1307) has been designed to disclose capital surcharges to result in “Recoverable Operating Results.” As a simplified illustration, assume that a stabilized rate consisted of only two elements -- (1) depreciation expense recovery of \$8 per hour and (2) capital surcharge of \$2 per hour. 1000 hours were billed. Actual depreciation expense was \$8000. [Note: Actual depreciation expense will seldom, if ever, be exactly equal to depreciation expense recovery and its recovery is based on an estimate.] A simplified Statement of Operations would then show:

Revenue	\$10,000
Expenses	
Depreciation	<u>\$8,000</u>
Net Operating Results	\$2,000
(-) Capital Asset Surcharge	<u>\$2,000</u>
Recoverable Operating Results	<u>\$ -0-</u>

3. Residual Value of Depreciable Assets. Residual value is the estimated salvage value of an asset at the end of its useful life. A capital asset in use shall not be depreciated below this value. The residual value of DoD capital assets is deemed to be 10 percent of the initial capitalized amount of the fixed asset unless the entity controlling the asset can determine that a different (greater or less) residual value is more appropriate. The residual value, regardless of the amount, shall be used in the depreciation calculation. Once established, the estimated residual value should not increase over the life of the asset, even if the fair market value of the asset becomes greater than its original acquisition cost.

4. Calculation of Depreciation Expense

a. Depreciation shall be calculated and accumulated using the straight-line method based on the original acquisition cost or reasonable estimate thereof less residual value. That is, the capitalization amount less estimated residual value shall be divided equally among accounting periods during the useful life of an asset. As stated in Chapter 58, paragraph D.7.g., Fund activities may request an alternative methodology for computing depreciation expense. Requests for an alternative methodology for computing depreciation expenses should be submitted for a determination of approval, through the appropriate DoD Component channels, to the OUSD(C/FM), Directorate for Accounting Policy. Acquisition cost shall include the purchase price plus transportation, design, installation, and other costs necessary to put the asset in the place and in the form in which it will be used.

b. Depreciation shall commence in the month following (a) the date of receipt shown on the asset receiving document or (b) the date the asset is installed and ready for use (regardless of whether it is actually used). Depreciation shall be recorded in equal amounts each month thereafter until the asset is fully depreciated, disposed of, or otherwise transferred. If an asset remains in use longer than its estimated useful life, it shall be retained on the accounting record, at its residual value (which can be \$-0-) until its final disposition.

c. If multiple cost centers use the same computer system, building or equipment, the depreciation or amortization shall be prorated based upon levels of usage or benefit received for each cost center. If, under unusual conditions, a computer system, building, facility, or equipment does not have a use identifiable to a direct or indirect cost center, the depreciation cost shall be charged to a general and administrative (G&A) expense account.

d. Assets that have been removed from use, regardless of the period and for whatever reason, shall continue to be depreciated during that period.

e. Land is not subject to depreciation. However, when land and building(s) are purchased together, the depreciable base is total cost less the cost of the land and the residual value of the building(s).

5. Cost Classification. Depreciation expense is classified as either indirect or general and administrative (G&A) depending upon the organizational location of the asset and the use to which it is put. However, it may be charged as a direct expense only if depreciation costs of all like assets used for similar purposes are charged in the same manner.

6. Depreciable Assets and Useful Life. Depreciable assets shall be recorded in one of the following specified asset categories and shall be assigned a useful life not to exceed that specified below for the applicable category. As stated in Chapter 58, paragraph D.7.g., Fund activities may request an alternative estimate of useful life. Requests for an alternative depreciation schedule should be submitted for a determination of approval, through the appropriate DoD Component channels, to the OUSD(C/FM), Directorate for Accounting Policy. If an asset remains in use longer than its estimated useful life, it shall be retained on the accounting record, at its residual value until its final disposition.

Asset Category

Useful Life

Buildings

20 Years

Includes structures to house or shelter facilities, equipment, or to provide working space for an installation's operations. The depreciation period shall not exceed the expected useful life of the asset. (Note: Historical buildings, statues, etc. are not depreciated.)

Structures and Facilities

20 Years

Includes special purpose assets such as automated warehouse retrieval systems, fixed cranes, etc. Structures and facilities may be housed in a building or may be independent. If housed in a building, they shall be accounted for separately from the building even though they may not be operated independently from the building. However, they may not be depreciated over a period exceeding the useful life of the building in which they are housed.

Leasehold Improvements 20 Years

Includes changes or modifications to a leased building, structure, or facility in a way that substantially extends its useful life, increases its potential rate of output, increases its operating efficiency, or decreases its operating cost. These factors are distinguished from repairs or maintenance, which tend to keep an asset in or near its original efficiency without materially adding to its life, productivity, or efficiency. The depreciation period shall not exceed the lesser of expected useful life of the asset or the lease period.

Assets Under Capital Lease

See Applicable Asset Category

A capital lease substantially transfers all the benefits and risks inherent in the ownership of property to the lessee, who accounts for the lease as an acquisition of an asset and the incurrence of a liability. Assets under a capital lease should be depreciated using the same guidelines applied to other capital investments.

Equipment (Non Combat)

Industrial Plant Equipment	10 Years
Office Furnishings and Equipment	10 Years
ADP Hardware/Software	5 Years

The depreciation period of equipment shall not exceed the expected useful life of the asset.

D. DEPRECIATION EXPENSE OF DWCF ASSETS AND FACILITIES USED BY DWCF ACTIVITIES

1. DWCF Acquired Assets. DWCF assets are those assets acquired through expenditure of resources available to the DWCF or, if not so acquired, are the responsibility of the DWCF to replace or otherwise use funds generated through depreciation expense recovery in operations or acquisition of other capital assets. As a general rule, the DWCF is not authorized to acquire, through use of its resources, real property. The accounting entries to recognize depreciation expense of DWCF assets are:

Dr 6125 Depreciation of Equipment
 Cr 1759 Accumulated Depreciation on Equipment
 Cr 1769 Accumulated Depreciation on Military Equipment
 Cr 1819 Accumulated Depreciation on Assets Under Capital Lease
 Cr 1839 Accumulated Amortization on Automated Data Processing
 Software

2. Facilities Used By DWCF Activities. As a general rule, the DWCF is not authorized to acquire, through use of its resources, real property. These assets are not acquired through expenditure of resources available to the DWCF and are not the responsibility of the DWCF to

replace or otherwise use funds generated through depreciation expense recovery in DWCF operations to acquire real property or other capital assets. Chapter 58, of this Volume provides guidance on accounting for real property assets by DWCF activities. The accounting entries to recognize depreciation expense of real property assets are:

Dr 6126 Depreciation of Real Property
Cr 1739 Accumulated Depreciation on Buildings
Cr 1749 Accumulated Depreciation on Other Structures and Facilities

Simultaneous with the above entry, an accounting entry shall be made to recognize the benefit received (equal to the depreciation expense recognized) from the use of real property assets. That accounting entry is:

Dr 3211.2 Assets Capitalized
Cr 5790 Invested Capital Used

The applicable depreciation expense account (e.g., Account 6126, “Depreciation of Real Property,”) and Account 5790, “Invested Capital Used,” shall both be closed to Account 3321, “Net Results of Operations - DWCF.” Those amounts shall be equal, but opposite. The closing entries are:

Dr 3321 Net Results of Operations - DWCF
Cr 6126 Depreciation of Real Property

and

Dr 5700 Appropriated Capital Used
Cr 3321 Net Results of Operations - DWCF

The result of the above entries is to reduce the value of “Assets Capitalized,” (Account 3211.2) by the amount of the depreciation expense recognized on real property assets that period. The net effect of the entries to “Net Results of Operations - DWCF,” (Account 3321) is zero as the closing entries offset each other.

3. Addendum 1 to chapter 58, “Capital Assets,” of this Volume provides an explanation of general ledger account 5790, “Invested Capital Used.”

E. MANAGEMENT IMPROVEMENT INITIATIVES

1. Prior to Fiscal Year 1994, management improvement initiatives meeting specified criteria were capitalized and the capitalized amount was amortized over the benefiting periods. Management improvement initiatives were defined as those efforts that:

- a. Met the DoD capitalization criteria;

b. Were expected to have a long-lived benefit to the management and/or administration of the activity but that had only incidental benefit to direct mission work performed by the activity;

c. Were independently established and authorized by DWCF management as an individual activity project or a joint project among multiple DWCF activities; and

d. Were necessary for reasonable operation and management of the DWCF activity(ies). Requirements for preliminary planning, exploration, or research before final approval of a project shall be financed from DWCF operating resources.

2. Commencing in Fiscal Year 1994, in accordance with congressional guidance, management improvement initiatives shall be expensed unless specifically directed otherwise by the Under Secretary of Defense (Comptroller).

F. REAL PROPERTY MAINTENANCE AND REPAIR

1. Previous Policy. From the commencement of the DWCF in FY 1992, each Defense Business Operations activity included in its annual budget an amount sufficient to finance major real property maintenance and repair (MRPM&R) projects costing more than \$15,000. The policy permitted two possibilities--the amount budgeted could be used to (1) replace funds used for major maintenance and repair costs previously incurred or (2) finance major maintenance and repair costs that had not yet been incurred. To avoid significant fluctuations in recorded MRPM&R expenses and, as a result, fluctuations in annual budgets, the amount specified in the budget was allocated on a monthly basis over a 10-year period. The following subparagraphs to this paragraph explain the accounting that was necessary under the previous policy. The following subparagraphs are necessary to fully explain the conversion of the previous policy to the current policy to expense real property maintenance and repair.

a. Prepayment of Expenses. In those cases in which a MRPM&R project was completed in the current period and for which an accrual had not created a reserve, the amount of the outlay (disbursement) was recorded as a prepayment. The prepayment was recognized on a monthly basis over a 10-year period. The accounting entries were:

Dr 1450 Prepayments
Cr 1012 Funds Disbursed

Entry to record a current period disbursement for MRPM&R for which the expense was to be recognized in subsequent periods.

Dr 6120 Other Services Cr 1450 Prepayments

Entry to recognize monthly current period expense of MRPM&R previously performed and paid.

b. Creation of Reserve Funding. In those cases in which a MRPM&R project was anticipated, a reserve to finance its costs was permitted to be created. The expense accruals created the funding reserve necessary to finance performance of major real property maintenance and repair. Payment for performance reduced the reserve. The accounting entries were:

Dr 6120 Other Services
Cr 3311.2 Reserve-Major Real Property Maintenance-DWCF

Monthly entry to accrue $1/120$ (10 years x 12 months = 120) of the expected expense for major real property maintenance and repair for which the actual outlay will be made in a future accounting period.

An outlay for the major real property maintenance and repair resulted in the following accounting entry:

Dr 3311.2 Reserve-Major Real Property Maintenance-DWCF
Cr 1012 Funds Disbursed

Entry to record a current period disbursement for major real property maintenance and repair for which the expense has been previously accrued.

c. Deficiencies of Previous Policy. Although the policy was designed to provide a stable funding source for MRPM&R without creating wide fluctuations in annual budgets, some implementation and accounting problems were encountered. A primary problem was that the policy was not consistent with generally accepted accounting principles and departed from other policies specifically designed to associate costs with the accounting period in which they were incurred.

2. Current Policy. Commencing in FY 1995, major real property maintenance and repair shall be expensed in the period in which the maintenance and repair occurs. Major real property maintenance and repair is defined as recurring maintenance costs and repair projects, real property renovation costs, planning and design costs associated with repair and renovation projects, for the maintenance and repair of buildings, structures, warehouses, and other real property owned or operated by DWCF business activities. Costs that will be expensed from operating budgets include real property maintenance, major maintenance and repair, and repair projects in any amount undertaken to preserve the physical structure or its support systems. Major real property maintenance and repair requirements are normally budgeted and executed as a level of effort necessary to support the maintenance and repair of business area real property.

3. Conversion of Previous Policy to Current Policy. The previous policy was not in accord with generally accepted accounting principles. A change from an accounting principle that is not generally accepted to one that is generally accepted is a correction of an error and is treated as a prior period adjustment. The following accounting entries eliminate the accounting affects of the previous MRPM&R policy:

a. Prepayment of Maintenance and Repair - Correction of Error

Dr 7400 Prior Period Adjustments
Cr 1450 Prepayments

Entry to correct, as a prior period adjustment, an error in an accounting practice and thereby eliminate the prepayment balance of previously paid amounts for major real property and maintenance that have not yet been expensed.

b. Reserve for Maintenance and Repair - Correction of Error

Dr 3311.2 Reserve-Major Real Property Maintenance-DWCF
Cr 7400 Prior Period Adjustments

Entry to correct, as a prior period adjustment, an error in an accounting practice and thereby eliminate the balance of previously accumulated capital reserves for major real property and maintenance.

c. Closing of Prior Period Adjustments Account

Dr 7400 Prior Period Adjustments
Cr 3311 Cumulative Results of Operations-DWCF

Entry to close, at fiscal year end, a credit balance in the prior period adjustment account to accumulated operating results.

Dr 3311 Cumulative Results of Operations-DWCF
Cr 7400 Prior Period Adjustments

Entry to close, at fiscal year end, a debit balance in the prior period adjustment account to accumulated operating results.

G. MANAGEMENT HEADQUARTERS COSTS

1. General. Each DWCF activity, or group of activities is under the management control of a designated DoD Component. The DWCF headquarters management is related to specific DWCF activity operations, and is separate from the general policy direction for the department or a DoD Component. Management headquarters to be funded from the DWCF must be identified in the supplemental provisions of the DWCF Charter (Management Command) for each applicable business area.

2. Identification and Payment for Headquarters Costs. Costs for discrete DWCF management headquarters organizations, and parts of organizations that perform DWCF management headquarters functions, should be directly funded by DWCF if feasible or, if not

feasible, reimbursed by DWCF on a pro rata basis. Significant costs for common support (e.g., counsel and personnel) at organizations partially funded or reimbursed by DWCF (i.e., that have direct DWCF management responsibilities) also should be allocated, if feasible. Only significant costs should be reimbursed. Significant headquarters costs are costs that exceed 1 percent of the total business area costs, or \$1 million, whichever is greater.

H. OTHER EXPENSES

1. Centrally Controlled Assets. DWCF activities that finance and centrally control a DWCF management system for the benefit of other DWCF users of that management system shall assign all allocable expenses to the benefiting users. The benefiting users shall reimburse the financing activity for their allocated share of expenses.

2. Unutilized and Underutilized Plant and Equipment. Costs of maintaining unutilized plant and equipment shall be determined and, when significant, shall be reimbursed by appropriated funds provided by the DoD Component having management responsibility for the DWCF activity. Costs applicable to unutilized plant and equipment such as depreciation, or maintenance shall not be charged to customers of the DWCF activity. However, costs applicable to underutilized plant and equipment shall be included in stabilized rates and charged to customers of the DWCF activity. Additional information is contained in section O., chapter 63 of this volume.

3. Disposal/Demolition of Assets. The costs incurred in removing, packing, crating, handling, and shipping of fixed assets for disposal or demolition of buildings and structures shall be accumulated within a separate job order. The costs incurred shall be charged to the appropriate fixed asset account. At the time the asset is made available to the Defense Reutilization and Marketing Service for disposal, the accumulated depreciation shall be closed into the applicable fixed asset account balance. The resulting net balance in the fixed asset account shall be recorded in general ledger account 7210, "Losses on Disposition of Assets." Proceeds, if any, from the sale of the asset by the Reutilization and Marketing facility shall be recorded in general ledger account 7110, "Gains on Disposition of Assets."